MATHESON — THE PRINCIPLES OF FOREIGN EXCHANGE

SECOND EDITION.

THE PRINCIPLES

OF

FOREIGN EXCHANGE

AS AFFECTING THE

Preferential Trading with the Colonies

PROPOSED BY

THE RIGHT HON. JOSEPH CHAMBERLAIN, M.P.

BY

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FOREIGN EXCHANGE.

THE new policy proposed by Mr. Chamberlain, as set forth in his scheme of reciprocal preference with the Colonies, demands the fullest investigation.

It is attempted in the following pages to show that:

I. Our Colonies cannot really help us by preferential tariffs.

II. No right opinion can be formed concerning preferential tariffs, or of any other alteration in our fiscal system, unless full consideration is given to the action of the Foreign Exchanges.

III. An excess of imports over exports, which is deemed a misfortune by some, is, for one part, caused by the passing through England of values due elsewhere, and for the other part, an advantageous balance due to this country for interest on capital expended in foreign countries, and for past purchases of British goods.

IV. The re-establishment of Custom-house restrictions in this country would be a national misfortune.

The present proposals in regard to preferential treatment of the Colonies arise first in regard to Canada, and a discussion, by no means exhaustive, took place at the recent meeting in Montreal of the Chambers of Commerce of the Empire. As is well known, it is proposed that Great Britain shall let in all Colonial produce free, and that a moderate tax be imposed on wheat and other food from all other countries. Whether the tax on wheat is to be 2s. or 5s. a quarter seems not yet to be settled; that, no doubt, is a matter for Parliament if a Government Bill is presented for discussion.

The preference in favour of British shipments by deducting one-third from the general schedule of import duties has existed for five years, but it has not brought the anticipated advantages, and apparently for the following three reasons:—one, that for many of the staple goods manufactured in Great Britain the duties, even with 33 per cent. reduction, are so high as to be prohibitive; secondly, that for other kinds of goods there is no tax at all—they are on the free list, affording no preference to Great Britain; and thirdly, that by the contiguity of the United States for reasons mentioned below, Great Britain is handicapped when competition with that country arises. The Canadians, however, seek naturally some return for the preference they have given, and hence the proposals of Mr. Chamberlain, which are at present before the country, find favour in the colony.

In Canada the merchants and manufacturers of Montreal and Toronto see clearly the advantages to themselves if the export of Canadian products increases, and if the population they serve increases with it, but they are not disposed to let in British goods to the detriment of their own factories.

It is doubtful how much of a possible higher price for their wheat would reach the farmers, because they are entirely dependent upon the railways for transport to the sea or to the lake and river boats which carry the grain on to Montreal. The railway companies, whose capital is mainly held in Great Britain can, within their statutory powers, charge more than they do now, and, as is the policy on English railways also, can prescribe for their actual rates "as much as the traffic will bear," and higher prices for wheat in Mark Lane will form at any rate an excuse for such a rise. Moreover, if the return traffic of imported heavy goods is discouraged, as it will be if the Canadian manufacturers get their way, the ocean freight rates to England, whether from British Columbia by the Pacific, or eastward by the Atlantic, will rise. While the manufacturers in the East state plainly that they can in no way reduce the protective tariff on which their profits depend, the farmers, on the other hand, have no sympathy with the high tariffs which raise the price of everything they buy, especially of clothing, agricultural machinery, and hardware; and indeed the proposed imposition by England of a corn duty against foreign competition is largely a sop to the farmers to restrain them from attempting a freer trade with the United States and Europe.

The Canadian manufacturers affirm that the $13,000,000 which they claim to have remitted in favour of Great Britain during recent years by the 33% preference, is so much cash given to the Mother Country, and they fail to recognise or acknowledge that it is really an immediate gain to the whole community in Canada, who have had to pay that much less for the British goods they have bought. Not only do they save this much, but there is a further saving to Canada of some ten millions

which the manufacturers of the United States have had to take off their prices to enable them to compete, under present restrictions, with the imports from Great Britain.

Bridges and other forms of structural steel work are protected by a prohibitive tariff of 35 per cent. less an allowance of one-third against importation from England. Locomotives and other railway material are also shut out by the same rate of duty, and, besides the growth of the railway workshops for making rolling stock, large new works are being erected in Montreal and are already in operation to make, as a commencement, at the rate of 100 engines per year. Thus do protective duties impede, and, in many cases, entirely prevent the importation of English goods, for the tariff wall is so high that the removal of one-third, the mere coping-stone as it were, to let us peep in, gives only a peep to the British manufacturers, and nothing more.

It is the same with textile goods, for, although the Canadian manufacturers cannot yet make the variety of finer stuffs offered by Manchester, Leeds, or Bradford, they are demanding increased duties to shield them from these and other goods which compete with their own, and which they allege the British makers are thrusting upon their markets. But they say, "we will import from you freely goods that we do not make in Canada, but you must not expect to send us much engineering material or any of your large staple products that we are making or intend to make. We will take half-finished goods, which to us are materials of manufacture, but these we want cheap, and so we allow them to enter free or impose a very small duty on them." Where there is free entry to all, Great Britain obviously does not benefit, and where there is a duty of only five per cent. the one-third preference is of little or no good to England. For instance,

whilst steel roofs, bridges, and locomotives are shut out, rolled steel plates and beams, which they do not make, are admitted free or with a nominal duty of five per cent. On this the one-third rebate to Great Britain is insufficient. German beams are preferred to British, if cheaper by twopence a ton.

The Canadian manufacturers, while urging Great Britain to buy all their wheat from Canada, and while expressing their astonishment that we should buy from India, Russia, and Argentina, seem to see no necessity for taking their payment in imports. It is in vain to point out that Great Britain buys wheat from India because our iron, steel, machinery, and Manchester goods are taken in exchange to supply the needs of two-hundred-million people; that we buy wheat from Argentina because the people there take every class of machinery and railway plant from us, and many other manufactured goods that Canada repels; that we buy wheat, and timber, and tallow from Russia because that country would become bankrupt, and unable to pay the debts she owes us, if we refused to take payment in the only currency she has to offer. In short, Canada, whilst offering to sell all the wheat we can consume, practically refuses to take payment from us in the only form available to us, namely, the produce of our staple industries, because they compete with their own. They will not accept the ingenious and plausible position proposed for them by tariff reformers in England, namely, that species of Zollverein or free trade within the empire under which they are to supply us with agricultural produce and minerals, and we in Great Britain are to perform the higher function of supplying them with all the manufactured goods they require. The humbler duty does not suit them at all—

it is as unacceptable in Canada as it would be in Victoria and New South Wales—although, if the whole population were polled, and the farmers' opinions really elicited, perhaps the majority might be inclined to support the British view, just as the squatters in Australia might do so if the politicians in the towns gave them a fair chance. The automatic working of the foreign exchanges is as ill-understood and as eagerly resented in Canada as by the "fair-trade" manufacturers in Great Britain. Recently, a Vancouver newspaper vaunted the merits of the flour they produced, which they were then sending to England, and in another paragraph told of a steamer that had just unloaded 2,000 tons of rails. A third paragraph—an item of news from Toronto—stated that rolling mills were about to be established, and that Canada might be independent of England for her rail supply. Surely freights to Europe must rise if vessels have to come in ballast or half empty to fetch wheat, and such increase in freight will all come out of the net price which the farmer receives for his produce.

The Americans can, in many branches of trade, deliver into Canada at a low price the surplus of their manufacture, and it is sometimes asked in Montreal why England cannot do the same. The United States and Canada are by contiguity, climate, and the domestic needs of the people, much alike in their requirements. The superfluity of manufactured goods in the United States, therefore, finds a natural market in Canada, but England, who does not, as do the United States, find her chief markets at home, has to supply special goods for her Continental, Eastern, and South American customers, and if she occasionally has an excess, the kind and quality would not suit Canada. Everything

is specified in American fashion. The designs, patterns, tests, everything follows American lines, and railway materials of all kinds must be just as in the United States. The fitting of houses with radiators, stoves, door-locks, hinges, electroliers, plumbers' goods and all kinds of hardware must follow the patterns of New York, Pittsburg, Philadelphia, and the factories of New England. The ladies take their patterns from New York rather than from London, Paris, or Bradford. Everything tells against the mother country, and no amount of sentiment prevails when the competition of merchants makes it necessary to buy in the cheapest market.

If all the Colonies are to be treated on the same principle as Canada, difficulty will arise in regard to the products to be taxed in Great Britain. The Australasian Colonies were not represented at the Montreal Conference, but as they, like Canada, are anxious to manufacture all staple goods, similar difficulties will arise there. New Zealand and New South Wales export wool, and will naturally expect some preference in the Mother Country. But will Yorkshire cloth-makers submit to a tax on wool, as the cloth-makers in America are obliged to do. There they also desired to obtain foreign wool free of tax, although they were protected by a 50 per cent. tariff against imported cloth. But the Ohio farmers successfully opposed such free admittance, and in the general maintenance of a protective policy Congress upheld the tax.

In the opinion of the present writer the whole question of free or restricted imports is dominated by the action of the Foreign Exchanges, and in the following pages certain statements and arguments are put forward for consideration.

If some apology be necessary for bringing forward so old a theme, it may be said that at the present time insufficient knowledge on the subject hinders the discussion of important questions. Controversies concerning trade and foreign tariffs might be simplified or avoided if there were a wider acquaintance with the principles of exchange, and with the instruments by which international commerce is carried on. That is to say, while most business men thoroughly understand the Clearing-house system of dealing with inland cheques, by which the balancing of an enormous aggregate of payments involves only an infinitesimal movement of coin or currency, yet the corresponding process of balancing imports and exports by means of foreign bills of exchange is not so generally understood. This want of knowledge largely arises from the circumstance that the gathering together of such bills is in few hands, and the individual trader or manufacturer has seldom occasion or opportunity of seeing the process.

If a London or provincial banker is asked by a trader to explain the ramifications of foreign exchange, he will say that it is enough for him to know his own inland business, and that when he or his customers have to remit to or receive from abroad, he manages it through a foreign bank in London which deals with the country in question, and to which he refers his enquirers for further information. If the trader, still curious to know, asks a foreign or colonial banker, or someone who has been a manager of such a bank abroad, he will not get what he wants. If with experience in the East, the banker will be familiar with the commerce in bills in Hong Kong, Singapore, or Calcutta, as the case may be, but how these bills when they arrive in London will affect the American exchanges he seldom knows. A banker in London,

whose whole business is with the United States and Canada, has but a limited concern with the exchanges of the East. There are, of course, those in the *haute finance* who know the complete movements and international influences of the bills which represent the flow of commodities, and no greater boon could be given to puzzled traders than a full explanation of the whole question by such persons. Those whose business or profession makes them familiar with the subject may require a special effort of mind to realise that what appears to them a mere rudimentary knowledge is not shared by others; but none the less, it is a fact that manufacturers and traders seldom recognise the principles which govern the foreign commerce of the country. It is true that various books on political economy deal with the subject, but generally in an abstract manner which does not bring the matter home to those who are engaged in particular branches of trade.

The "Theory of the Foreign Exchanges," by the Right Hon. G. J. Goschen, M.P., published in 1863, is still the standard work, which gives much of the explanation required, but there is need of a new edition brought up to date, for the Colonial trade question had not then arisen. The present writer does not presume to touch on the higher branches of the subject as dealt with in the above treatise, nor with the more subtle causes of fluctuation in values. It is here merely attempted to give such a summary reference to foreign exchange as may assist the ordinary trader in understanding the methods and principles involved, to make him pause in instituting change, and to lead him to obtain a fuller knowledge elsewhere.

The historic study of exchange is interesting and fascinating. Barter of goods between foreign countries,

even in remote ages, was facilitated by instruments of exchange, as the remittance of gold and silver was troublesome, and did not effect the purpose of the merchant.* Among the commercial cases argued before the Athenian Courts were often those relating to the import and export of merchandise; and the eloquence of Demosthenes, as recorded in his private orations, upheld the right of his clients to letters of credit transferring debts in foreign cities. In still more ancient times, the Chinese transferred indebtedness in distant parts of the empire by portable tablets, suitably impressed. But leaving on one side such ancient histories, the use of foreign bills or letters of credit in Europe was introduced in the 13th century; while inland bills only came into use in Great Britain and became recognised by law in the 17th century. In the reign of Edward I., credits on Genoa, Venice, Bruges, Antwerp, Hamburg and elsewhere, could be purchased in London with every certainty that they would be honoured on presentation, and a merchant visiting these cities could, if he had no goods of his own to exchange or sell, and without the danger of carrying actual money, provide himself with the means of making purchases. For then, as now, it was the exchange of commodities, and not of money, that was the question of importance. A travelling merchant, so equipped, ran no risk of impoverishment from robbers, the letters of credit he carried being worthless without some genuine endorsement or authentication. As an able writer has said of the Lombards or bankers of those days—"they invented the letter of change, which immaterialised their wealth, made it portable, imperceptible, defying the confiscation of their persecutors"; or, as Lord Overstone once described bank

* Some of the descriptions and examples which follow here were included in a paper read by the present author before the Society of Arts, London, in March, 1892, when Mr. J. Biddulph Martin, M.P., banker, presided in the discussion that followed.

notes—"they were the shadow of the gold." Or, in still other words, a bill may be said to transfer not gold but the command of gold.

By gradual growth, the use of Bills has vastly extended; they are protected by the laws of all civilised countries; every incident, however trifling, in the commerce of such bills has been strengthened; so that by a natural evolution they have attained the position of international instruments of barter and exchange.

There are many methods, differing somewhat in procedure, but the following indicates the principles involved. Let a foreign bill be followed in its track across Europe. A Russian merchant in Odessa has shipped a cargo of wheat to a customer in London and requires payment. Alone, or under the direction of his banker, to whom also he hands the bill of lading, he draws a bill on his customer in Mark Lane for the agreed value of his wheat, say £1,000. He draws the bill, say at three months' date; he draws it in favour of the banker (that is, to the banker or his order), and in duplicate, the copy becoming void when the original is paid. The bill, being drawn in Odessa, would be dated according to the old style, and would probably be in French; in English, it would read—

£1,000. ODESSA, 1/13 *February*, 1903.

Three months after date pay this First of Exchange (second being unpaid) to the order of Messrs. Kopeckoff, One thousand pounds sterling, value in account.

PAUL SITOPOLEVITCH.

To Messrs. John Smith & Co.,
500, Mark Lane, London.

Sometimes bills are drawn in triplicate—first, second, and third. The drawing of more than one copy may probably have arisen, for safety and convenience, in days when transmission by post was uncertain. The

duplicate, or copy, is now useful in the negotiation of the bill. The banker, whose business it is to buy and sell bills, and who has a personal knowledge of the corn exporter, buys the one in question at a certain rate of exchange, and either pays to the merchant the price in roubles, or makes him an advance till the bill is accepted. He pays for the bill less than the par value in roubles of pounds sterling, because three months' interest has to be allowed for; and he pays slightly less than he would sell at because, like a jobber on the Stock Exchange, he takes as his own profit "the turn of the market." The banker has bought the right to £1,000 in London three months after the bill was created.

Immediately he has bought the corn bill, the Russian banker sends to his agents, Messrs. Blank & Co., in London, the original or "first of exchange," with instructions to present it for acceptance. The London corn merchant having been duly advised by the vendor in Odessa of the shipment, and of the drawing of the bill, accepts in ordinary course, and Messrs. Blank & Co. lock up in their safe the accepted bill to wait further instructions. The bill, though accepted, is incomplete, for it is not endorsed; the banker in Odessa, by this omission, retaining his property in the bill. For his object is to sell it when he can do so at a profit, and on 'Change every day, or in his Counting-house, he waits a purchaser.

A dealer in agricultural implements, who has ordered some harvesting machinery from Lincoln, wants to remit to England, and purchases from the banker as sufficient for his purpose, or as part of a larger sum, the £1,000 bill. The banker endorses to the order of the machine importer, and hands to him the copy or "second of exchange," and so gets back his roubles—presumably at

a profit. It will be seen that the buyer of the bill has not got a complete document, the bill, though endorsed, bearing no acceptance. But at the foot of the copy is an intimation where the original or "first" is lying in London, and the Lincoln engineer (or his banker for him), presenting the "second of exchange" as his authority, demands and receives the original with its acceptance. The two—the original and the copy—are pinned together, and so form one complete document, which, on maturity, is presented to the merchant in Mark Lane, or to the bank named in the acceptance, and is paid. It will be seen that although all the parties concerned obtain the money they desire, the Lincoln engineer in sterling, and the Odessa Corn exporter in roubles, no money has been remitted either way, nor does either of the parties know of the other's share in the transaction. Although really a barter, the intervention of the bankers hides the nature of it from those immediately concerned. Each has demanded money for his goods, and has received it.

It may be noticed here, in passing, that the reciprocal payments are not made in the same way. While the Odessa merchant generally finds it better to draw on London than to ask for money to be remitted to him, the Lincoln manufacturer prefers, rather than draw a bill on Odessa, that his customer shall remit to London. The foreign importer of British goods also finds this method best, for he can always buy bills payable in London. Obviously, however, this is not a universal rule. When credit is allowed by the English exporter, and especially in the smaller branches of trade, an infinite number of bills are drawn from England upon foreigners to whom goods have been sold. In the English hardware districts, for instance, bills for sums as

small as £20 are drawn at dates even up to six months, and such bills, while they go to swell a total which has due weight in the exchanges, are not passed so frequently from hand to hand as are the larger bills of well-known firms.

The example of the Odessa corn bill is, however, a simple transaction comparatively direct, and does not always occur. Indeed, the Lincoln engineer might say of it, "I only wish it were true; my neighbours and I are getting very few orders for machinery from Russia, and yet I see Russian wheat in undiminished quantities coming in." Perhaps it is for Sheffield cutlery, or Nottingham lace, or Bradford merinos, for which the corn bill has been used, and if so the effect on British commerce is the same. But possibly the Russian tariff may be so vindictive against Great Britain, and so wide in its grip, that not nearly enough of these goods are imported to pay for all the wheat that comes, especially when the Russian hemp and tallow have also to be paid for.

If such an uneven case were to occur, and it often does occur between countries, and unless some easy remedy or alternative presented itself, the trade in wheat would be impeded. For the price in roubles at which bills on London could be sold would fall; an entire absence of buyers may even be imagined, and the wheat exporter would have to ask for gold to be remitted to him, the whole cost of which operation—freight, insurance, conveyance to a Russian mint, and commission on its sale—falling on the wheat exporter. For the English buyer would only pay the current price of wheat as determined by the supply from all other sources. Such extreme and imaginary cases seldom happen.

When the demand for bills just equals the supply, the exchange stands at par, the money of one country having a value compared with the money of another exactly according to its gold equivalent. (Fluctuations because the money of a country is in silver, or depreciated paper currency, are domestic questions which do not pertain to the present discussion.) As in the case of general merchandise, so with bills of exchange, slight oscillations are always occurring in the supply and demand which cause the price of bills—namely, the rate of exchange—to vary. Dealers who anticipate a change in the rate will buy or sell bills speculatively, as would a dealer in any other commodities. But the par value tends to right itself automatically. For—to continue the Odessa example—if owing to a slackness in the demand for British goods there be more sterling bills on London than there are buyers for, the price falls to a discount; exports are discouraged, and the purchase of British goods is encouraged, as Russian merchants can buy sterling bills cheaply and so neutralise some of the tariff impediment. And the same over-supply in Odessa of bills on London which causes a discount there produces in London a premium on bills payable in Odessa, so that an English merchant is encouraged to ship goods there because he can sell at a premium the bills he draws against each cargo.

The greater the inequality in the exchange of goods, the greater becomes the discount and premium respectively, the bills being the mere instruments which enforce the inexorable rule in any country, that if imports are prevented or impeded, exports are immediately restricted, the country that imposes the barrier being the one to pay the penalty. But the Odessa banker, notwithstanding the excess of Russian exports over imports, is still willing to buy the bill for a good price, because he has other

customers for it. He may sell it on "'Change" to a banking agent, who wishes to send it to St. Petersburgh to make up a remittance to London for interest on Government bonds, or for paying the rent, interest, or dividends on British investments in Russia. Or possibly he may obtain a better price by selling the bill for commercial purposes. An Odessa wine merchant, who has bought claret and brandy from France, wishes to remit money in payment, and as bills on London payable in sterling at a fixed date have an international currency, he buys the corn bill, endorses it to the wine-grower, and sends it to Bordeaux, for he has to pay in francs, and he sees by the daily-published lists of exchange-rates that the value in that city, measured in francs, of English sterling bills is good. The wine-grower, on receiving the bill, endorses it over to his banker, who credits him with its value and resells it. The exchange price may not, however, be due to a great demand for remittances to England, for Bordeaux may be sending more wine than she is taking English goods in exchange, but there is a brisk import of Saxony woollens, and the bill is again endorsed, and is sent off by a dry-goods merchant to Chemnitz to pay for hose. By this time thirty days of the bill's course has run, and its value has increased as the allowance for interest becomes less. On its arrival in Saxony, the woollen manufacturer there is credited by his banker with the value of the bill in marks, and from the banker the bill is again purchased by a wholesale dealer in colonial produce who has to remit to Amsterdam payment for a large consignment of Java coffee which he has bought. Nothing is more acceptable in payment than a sterling bill on London. Finding that all the space on the back of the bill is already covered by endorsements, he gums on a further six inches of paper (*allongement*) and writes his name. In Amsterdam the bill is bought by one

of the Dutch railway companies, which has purchased some locomotives in Manchester, and has, by agreement with the manufacturer there, to provide money at a London bank to pay cash against bill of lading. So that at last the cargo of wheat is settled, so far as the two countries are concerned, by a Dutch transaction, and the balance of indebtedness is adjusted. It will be seen that the bill, though it has taken a tortuous route, has, to use a scientific illustration, "followed the line of least resistance," and going at each stage in its journey to the place where London bills are in demand, automatically found its destination with those who are willing to buy British manufactures, or who have to pay debts owing in Great Britain. In short, the Russian wheat-importer, being prevented by his country's fiscal system from selling his bill directly to an importer of British goods, has, through the machinery of foreign exchange, found a substitute.

The foregoing is by no means an exceptional case. On the contrary, the course of such bills and their effects are frequently much more intricate. But before referring to other incidents, the reasons which give to bills on London their pre-eminence as instruments of Exchange may be touched upon. At the very basis of British credit is the traditional belief abroad in the integrity of British traders, who, as a class, are known to fulfil the spirit as well as the letter of their engagements. The payment of the bills is in pounds sterling, that is to say, in gold of a specified weight and fineness. There is no risk of payment having to be accepted in silver or currency of fluctuating value. The buyer of a bill and he who takes it in payment knows exactly what he is to get. The payment at the due date is certain. It is true that the bill represents a debt, but no one has to be sued or dunned ; it is to be paid without question on presentation.

When the bills are those drawn directly by bankers on any one of the leading financial houses in London, experience has shown that such bills will be honoured, the percentages of failure in this respect being so minute as to be hardly worth consideration. But, in the case of bills drawn on mercantile firms, who may not be known to those who buy the bills, it is necessary to remove even the smallest feeling of uncertainty. In the case of the corn bill, the Odessa banker knows that actual value is represented; for he is acquainted with the customer who draws the bill, and is aware of all the circumstances. But the subsequent buyers of the bill have no such knowledge, and might hesitate to rely absolutely on the means and good faith of the acceptor. No room must be left for doubt, for, at each transfer, full value in money or merchandise is irrecoverably given, and there is no margin for risk. It is not always enough to know that, in case of the bill being refused acceptance, or of being dishonoured by the acceptor, the endorsers are liable. There is probably an ultimate security in this, but delay and expense would be involved if the bill had to retrace its journey, each endorser paying to the one who took the bill from him, and recovering from the previous endorser.

There must be an immediate remedy in London that will maintain the prompt cash value of the instrument. Therefore the original banker, in whose favour the bill is drawn, and who intends to use it as a negotiable instrument, clenches the matter by adding a guarantee beyond that of the actual parties to the bill. This is one of his functions as banker, and the risk is incident to his business. The guarantee is effected as follows. Almost all foreign bankers keep a moderate amount of money, or, what is as good, credit in London, which though inadequate

to pay all the bills drawn in their favour and bearing their endorsement, is quite sufficient to protect them all by paying in the very rare and occasional instance of the acceptor failing. At the bottom of the "second of exchange," which is the negotiable copy of the bill, is inscribed "The first and in case of need with Messrs. Blank & Co." The first part of this inscription is, as already mentioned, a mere direction as to where the accepted "first of exchange" is to be obtained; the second part informs all concerned that Messrs. Blank will for the honour of the first endorser (the Odessa banker), pay the bill if the acceptor fail to do so. So immediate is this payment that the numerous endorsers of the bill need never know of the temporary default, and they have no concern in the subsequent steps that may be taken by Messrs. Blank to enforce payment from the acceptor, and, he failing, from the original endorser, the Odessa banker. Not only, however, has the Odessa banker given the "in case of need," but some of the other bankers, through whose hands the bill has passed, have added theirs also to satisfy their local customers who have bought the bill, so that when the endorsed copy, or "second of exchange," reaches London, it may have two or three such inscriptions, each giving a separate name in London.

It will be seen how important this guarantee is to all concerned. To the traders, because the value of the document for which they have exchanged merchandise is ensured; to the bankers, because their credit is maintained. If delay or doubt once arose in regard to bills sold by them the negotiability of future bills bearing their impress would be endangered.

Besides the bills that are sent to London by the buyers and sellers of merchandise, a large proportion reach their destination in parcels from the foreign bankers

who have purchased them, and who thus maintain in England sufficient funds to meet the drafts which they make from time to time. Indeed, this mode of procedure is increasing, and the proportion of Commercial bills remitted directly by traders tends to decrease. For those in foreign countries who have to make purchases in England often find it more convenient to open a credit through a banker in their own country, than themselves to purchase bills to remit direct to the manufacturer or merchant with whom they are dealing. By this course the banker, through his London agent, acts as the buyer's intermediary, and protects his interest by paying over the money or accepting a bill in London only against a bill-of-lading. This again tends to maintain the ignorance of the trader previously referred to. But all the same, the money paid in London is the product of bills drawn in a foreign country against merchandise; bills which have a negotiable value in that foreign country only because British goods are to be purchased, **although not necessarily by the country where the bill is drawn.**

There are also merchants who may be called merchant-bankers, whose transactions are so large and widely spread that they may be able in their own house and its numerous branches to do a reciprocal trade that shall effect the balance above described. A small merchant or dealer often finds it expedient to sell his produce or his merchandise to such a firm, instead of himself seeking a customer in a foreign country. If the business of these large houses could be disclosed, it alone would illustrate the process which it is attempted here to describe.

In making remittances, especially of large amounts, for precise sums, it is not always practicable to obtain a parcel of commercial drafts which give the desired total. But, as already stated, most foreign bankers, even those

who do not make large drafts, have funds in London against which they can draw cheques of moderate amounts to make up differences. Bills of small amounts are also supplied by those which tourists draw on London against the letters of credit or circular notes which they carry with them. Cheques drawn by tourists are, as a rule, readily cashed if they are on an English and (by preference) on a London bank. The cheques that have been drawn or the dividend warrants which a British resident abroad has had sent to him from home may, after he has endorsed them, be cashed by a local money-changer who, treating them as London cash instruments, will re-sell them to importers who have to make payments in England or elsewhere. Other small bills are those of retail shopkeepers and agents, who have sold goods of trifling amounts to English buyers. The aggregate of these bills is very great, and they affect the exchanges at certain times of the year. But whether sent to England direct by the banker who receives them, or by an indirect course, they form part of the aggregate flow of value in both directions. The drawer has purchased with them food or lodging on the Continent, but, by the inexorable and automatic law of foreign exchange, these purchases have been met by the foreigner buying British goods.

There is a reciprocal current of credit notes expended by foreign tourists in England. The money spent by American travellers in Europe is greatly in excess of the expenditure by European travellers in the United States, and this not only in mere travelling expenses but in the purchase of goods, advantage being taken of the much lower prices that prevail. Clothing, jewellery, trinkets, and all kind of personal wares, are bought to such a large amount as to tell considerably on the exchanges. But while the credits on London, purchased in New York by

intending travellers, are drawn against the produce shipped to Europe which appear in the Board of Trade returns, the credit notes do not appear, nor do the goods purchased and taken home as personal baggage.

The examples given here of the kind of bills payable in London are, from a banker's point of view, few and incomplete; the variety is really very great. Treasury bills, issued by the British Government, and due six or twelve months after issue, are largely held on the Continent, and are applied to the payments for British goods. So also are bills drawn on London at military or naval stations, or by captains of British warships in foreign ports. These bills have been given in payment for coal or food, but by the automatic action of exchange, the British expenditure has to be met by the foreigner buying British goods; for no money has passed and the bills serve as the instruments of barter. For such bills are freely bought by merchants and bankers, and reach London after passing through many hands, as already described.

Besides the certainty in regard to the time and manner of payment of sterling bills, the vastness of the trade concentrated in London has made that city an international clearing-house, and, as already noticed on page 22, it is found convenient by foreign as well as by British traders to settle all transactions there. And this applies, as will have been seen, to transactions entirely foreign, sterling bills being used as international instruments for purchases and sales between foreign countries, having nothing of the British element in them. This is no small advantage to Great Britain, because, as it is generally easier to buy bills or credits on London than on any other city, a preference will be given to British manufacturers when purchases are thus facilitated; and

as all money dealers abroad are obliged to keep in London money or its equivalent, there are large balances available on moderate terms to English borrowers, and the rate of interest is low.

It is endeavoured here to show that what is generally spoken of as the balance of trade is regulated automatically, that the commerce in foreign bills serves as a gauge or measure to record it, and that neither Parliament nor Congress can in the long run divert the national flow of trade, although they can, by mischievous interference, impede or restrain it. To diminish imports while increasing exports is the ideal of many traders, who do not recognise that the placing of barriers in the way of values coming in, is in effect the checking of customers who are coming to buy, and whose products form the purchase money.

The Board of Trade returns of imports and exports are often studied to see how the balance of trade stands between Great Britain and other countries, and one reason for the misunderstandings that arise is that the balance is hardly ever entirely a direct one, and that a third country, or the trade of many countries, has to be brought into the account in order to complete a proper statement. Or, in other words, the total exports and the total imports must be set against each other to ascertain the real condition of affairs, and to judge of the wisdom or otherwise of a particular policy. Let it be assumed that a particular country is sending to Great Britain merchandise to double the value of what she buys as shown by the official returns. First it must be remembered that the amounts shown in the returns need qualification. The value of British exports is declared as the free-on-board value at the port of departure and the freight which is received by the British ships that carry the

goods has to be paid by the foreigner, so adding considerably to the total sum received by this country, a sum in excess therefore of the mere free-on-board value. It is further to be remembered that exports include capital investments or loans, no immediate balancing of which is expected, but for which profit or interest is looked for in the future, the very profit which in a future year will swell the imports into England, to the annoyance of the fair trader.

On the other hand, the value of imports as entered at the British Custom House is the value delivered at the port of arrival and the freight earned by British carriers has to be deducted before the net sum paid to the foreigner can be ascertained. The money so paid for freight is really paid for the building of British steamers, which, though not exported, earn a large revenue. Secondly, the imports into this country are further swollen by the tribute, *i.e.*, the interest or profit just referred to, that has to be sent here in the shape of dividends on loans and other British investments abroad. Thirdly, and this is the point it is desired to emphasise here, the balance of trade may even appear to be largely against Great Britain in regard to a particular country even after making allowances as above, and yet the balance be really in our favour. If an exporting country, by its prohibitive tariffs or otherwise, refuses to buy from Great Britain as much as it sells, it must find a substitute in someone else who will buy, so as to redress the balance. If this is found to be the case then the apparent adverse balance will be explained and neutralized. The course taken by the Odessa bill shows how this can be effected. But to take another illustration: if after making all the allowances for freights and interest on investments just referred to, the purchases by Great

Britain from the United States were to exceed the sales to that country by £50,000,000 per annum, there would be a full compensation for the apparent loss if the United States, in order to make these excessive sales, were obliged to find some other country or countries more complacent in regard to purchasing from Great Britain, who took British goods in preference to those manufactured in America. It is endeavoured here to show that such compensation does really take place.

London is the great meeting place and exchange for values between East and West, a large proportion of the trade between the United States and Asia involving a flow of bills through London. They appear to complicate, while really they are necessary to elucidate the balancing of total exports by total imports.

A corn dealer in Leeds, who pays by cheque in London for wheat purchased by him from an importer who has had a cargo shipped to him from Baltimore, asks how the money reaches the grower. Surely gold must be exported for the purpose, for the United States send us far more produce and goods than we export in exchange.

Perhaps the following explanation may afford the answer, and it is to be noticed, in this regard, that the commerce in exchange between America and Great Britain is not exactly on the same lines as the continental bills previously described.

The American exporter, having shipped his wheat, draws a bill on his British customer for the value, and taking the bill, together with the bill of lading, to the eminent Anglo-American bankers, Messrs. Crœsus, at their Baltimore office, sells it to them for a sum in dollars.

The bill itself is seldom resold to importers as in the Odessa case. Crœsus and Co. send it—with many others drawn for pork, petroleum, and flour—to their house in London, where the amount is collected from the wheat importer. By the continual export in this way of produce from the United States, an enormous aggregate of money is lying in London at the disposal of the bankers. The latter gentlemen, however, obviously have not of their own resources enough money in Baltimore and other United States cities to pay all the millions needed, but they obtain it from their other customers.

A New York importer of woollen goods, having to provide money in London to pay Messrs. Stripe and Tweedy, of Leeds, for cloth supplied by them, takes his dollars to Crœsus & Co., at their New York office, and buys a letter of credit, which he sends to his Leeds friends, entitling them to demand from Crœsus and Co., of London, payment for his cloth on presentation of their invoice and bill of lading. A steelmaker of Pittsburg, wanting to remit to Europe for a cargo of Elba ore, pays his dollars also for a similar London credit in favour of his Italian ore merchant. A tea importer comes along with his dollars, and asks for a credit in favour of Chin Chin, the well-known tea merchant in Shanghai. Crœsus and Co., who are at home to all customers who will pay them a commission, grant the credit, and write or cable their London house to provide the wherewithal in China. The bank in London sends a clerk over the way in Lombard Street to one of the Anglo-China banks, who, on receiving the equivalent in sterling, write or cable their Shanghai house to duly cash Chin Chin's drafts on London against the usual shipping documents, when the tea has been put on board a steamer bound to New York.

The Anglo-China bank has ample funds in Shanghai, the produce of British goods shipped thither, and for which they have previously paid the British manufacturer in London in sterling. Every transaction, and at each end, brings the bank engaged a commission. A Philadelphia tanner desiring to buy hides in Brazil asks for a credit in Rio in favour of Señor Milray of that city, and Messrs. Crœsus supply this also, knowing that their London house can buy with British sterling from the Anglo-Brazilian Bank some of the money lying in Rio, the produce of Birmingham hardware and Bradford merino, the manufacturers of which goods have already been paid in London. This multifarious list does not nearly exhaust the vast funds available in London—the cargoes of American petroleum, pork, and wheat having been numerous, far too numerous in the eyes of the British fair-trader, who wants to limit them. So as the tanner comes out of the Crœsus counting-house he rubs shoulders with his friend Mr. Spicer, the wholesale grocer, who is coming in to buy a credit on Calcutta in favour of a Parsee firm, who are about to ship him some tea and nutmegs. Again from London radiates to Calcutta the necessary authorisation to pay over some of the money lying there, the produce of Manchester cotton goods. The day's business of Crœsus and Co. in New York is completed by a sale to the secretary of the Atlantic-Pacific Railway Company of a large credit on London, to meet the dividend warrants just posted to the British shareholders of that important line. It will be seen that such interest, together with many other remittances of the same kind, have really been paid for in produce, so helping to balance the apparent superfluity of imports into Great Britain, which so annoys the fair-trader. All the foregoing transactions may be new to him, who may be surprised therefore to hear that they are taking place every day, and not only in the United States.

Each country has benefited. China has sold her tea; America has exported (but not to China) what she can sell cheaply—produce; Great Britain has attained this cheap food, and, avoiding altogether the American Customs barrier, has exported what she most desires to sell, namely, manufactured goods. There is a limited number of financial firms who have houses in Chicago, New York, and other American cities, as well as in London and Paris. As has been shewn, these firms have corresponding houses in the East, or in London trading with the East, and are able to grant credit in either direction. It is these banking firms who collect, exchange, and distribute the drafts based on the merchandise, and for this reason the traders who avail themselves of their services are often not aware of the machinery which deals with the international exchange transactions above described.

It will be seen, therefore, that the United States, whose imports of British goods do not suffice to repay them for all the produce they have shipped to Europe, use part of the balance to pay interest due to British investors, and then, by the automatic action of foreign exchange, find substitutes to purchase more British goods. The result is that Huddersfield woollens, Bradford merinos, Manchester calicoes, Middlesbrough steel, and Leeds machinery, go to pay for a corresponding balance of coffee, tea, and spices consumed in the United States, but unpaid for by American exports to these countries.

At this stage it may be convenient to differentiate between the direct exchange, as exemplified by the Baltimore wheat transaction, and the indirect exchange through London between the United States and India, China, and Brazil. If trade in the United States were unfettered, there would be less need for the Americans to

buy credit here, because the shipments of American goods to these neutral markets would provide a larger proportion of the funds needed in Shanghai, Calcutta, and Rio. But as neither the Chinaman, the Hindoo, or the Brazilian buy pork or apples, and only a limited amount of hardware, flour, petroleum, sewing machines, and cotton piece goods, and as the inflated cost of manufacture in America forbids the sale of what these nations really do require, the exchange is necessarily through England, a free country where artificial impediments to trade are not yet permitted. If the fair traders are unaware of this commerce, so also are our American cousins who flock to the counting-house of Crœsus and Co. They only know that these eminent bankers can apparently sell their credits on any city in the world, and it is neither the duty nor the inclination of the bankers to explain their methods.

The flow of values, obviously, cannot balance month by month. There are countries having staple products, such as rice from Burmah, wheat from Russia, or coffee from Brazil, that are shipped only at certain seasons, while these countries may be importing manufactured goods all the time. There are capitalists who also may be termed merchant-bankers, who with profit to themselves negotiate bills of special kind drawn for the purpose of tiding over the lean months. These again are incidents which may confuse, and yet when explained help to elucidate the whole question.

If fair consideration be given to the foregoing explanations, can it be supposed that actual money has to pass? The gold that passes between countries is infinitesimal as compared with the values dealt in, and it is the barter of merchandise that really dominates the exchanges. Indeed, London, as a general clearing-house, may be likened to a vast reservoir into which a thousand rills are

running, and from which a thousand conduits discharge its store. No one can identify the water he receives with that of any one rill, but in the aggregate the supply must exactly equal the discharge. But the discharging conduits are of two kinds: one, forming the larger group, which pays the cost and profit of imported goods; and the other a smaller but still capacious cistern, which distributes the interest on the accumulated investments of many years.

No country can export without importing, and those who buy from abroad can compel—directly or through the indirect channels just described—their creditors to take goods in exchange. But though the ordinary American importer may not see how the exchange is effected, his Protectionist administrators do, and they resent the transfer to England of the foreign trade which properly should benefit America, and they have tried to divert the current. By so-called reciprocity treaties, chiefly with South American countries, and directed against the supremacy of England as the great international clearing-house, the Republics of Central and South America have been told that if they will grant more favourable terms to goods from the United States than they do to British goods, then the duties at United States ports shall be relaxed in their favour. But while such artificial barriers may impede and annoy, they cannot in the long run divert the natural current, and only when the United States adopt free trade will New York have a chance of ousting London as the general clearing-house of the world.

It is said that Raw materials are not to be taxed. What are they ? May they be defined as those products of nature on which no processes of labour or handicraft have yet been bestowed, and which have not yet afforded employment to the skilled artizan or labourer ?

This is not quite the spirit in which they are regarded by the British manufacturer, who defines the materials he wants to buy duty-free according to the needs of his own particular trade. The ship-builder and bridge-builder ask for a free hand in the purchase of steel beams, plates, and bars—their raw material—and plead that if they be not allowed to buy some of it in the cheapest market, say Germany and the United States, they will be unable to compete in foreign countries such as Japan and South America. So also pleads the maker of smaller things, steel wheelbarrows, and corrugated galvanized roofing sheets, for instance, which are exported in large quantities. The British steel-maker, of course, denies that his plates, beams, and sheets are raw material, and points to the elaborate processes of melting, hammering, and rolling by which his ingots have been converted into what he is pleased to call his finished goods. Now that protection is to be the order of the day, it would be manifestly unfair to leave his trade open to foreign competition. If—he would add—you really want to get at the raw material, you must go to pig-iron. I import a good deal of this at times; it is essential to my business. That, if you like, is raw material, and should be imported free. If it is, says the proprietor of some blast furnaces in Middlesbrough, you will commit a gross injustice. How am I to carry on my trade against the competition of the blast furnaces at Dusseldorf and Philadelphia if you let in their pig-iron free, and yet raise the cost of the wheat and meat consumed by my workmen, of the oats and

maize for my horses. At the same time you make me pay dearly for my machinery because you have imposed a duty on the foreigner from whom I used to buy it. No, no! the real raw material is iron ore, the product of the earth; that, and that alone, should come in free. But to this view there are some very vigorous opponents. The West Coast Hematite Iron Ore Company, who at great cost have developed mines in North Lancashire and Cumberland, protest vehemently that Spanish ore should no longer be imported free, now that the prices of mining wagons and electric motors have been raised by the taxing of those which they formerly imported free of tax from Germany. The Middlesbrough man retorts: If you tax Spanish ore under the plausible but erroneous excuse that it is foreign, you will simply confiscate the capital that I and my co-adventurers have embarked in mines in Spain. The supply of British ore as suitable for steel-making is so inadequate that we have been obliged to look abroad, and we found just what we wanted near Cartagena, on the coast of Spain. First, we sent out a mining plant, rock-drills, and winding engines; then we constructed a long jetty for shipping the ore; built a narrow-gauge railway for bringing the ore to the steamer; electric cranes and transporters for handling it; and finally arranged low freights with a shipowner. We spent nearly £200,000 on this plant, but almost all the money went in wages to British workmen, who, owing to slackness of trade at the time, would have been discharged if capital had not been subscribed for our mine and other similar enterprises. However, we made the mining man, the engine makers, the jetty builder, the locomotive and electric firms, all take shares in the concern. We could not get the shipbuilder to take shares, but he built special light-draught steamers for us, which will be useless to him if our business is stopped. If you want to tax anybody go for the

Spanish landowner, who gets 6d. a ton royalty, which is all we can spare him out of our f.o.b. cost of 9s. 6d. He is the only foreigner concerned. I have an acquaintance in Yorkshire who is in just the same difficulty. He and his friends have put their money into some Caspian oil wells requiring nearly the same kind of plant that we have at our Cartagena mine, except that the steamers are built with oil tanks instead of for carrying ore. The Scotch firms who distil their oil from shale coal say that as the taxing of foreign manufactures is the order of the day, they must have a tax on Russian oil, but as the Russians only get for their share about one-twentieth of the total cost, it seems a little hard on the Leeds people, whose capital outlay went largely into the pockets of the British workmen, that their earnings should be taxed, their lamp oil made dearer, and the employment of British steamers restricted.

Much of the imports coming here from America under the name of manufactures is really much-needed material for our own factories, as copper partly refined, zinc, leather, oil, lead, slates. No country in the world—not even the United States—is independent of other countries, and if they want to sell, must also buy. We are the envy of nations because we have the best end of the stick—we get back more than we send.

Under present conditions, the manufacturers of the United States must come to this country if they wish to supply us or our colonies to advantage. The largest American boiler-makers have their works in Scotland; there also is the Singer's sewing-machine factory; Messrs. Fraser & Chalmers, of Chicago and San Francisco, the most notable manufacturers of mining machinery in the world, have their works near London; the largest makers and installers of electric plant in the world, the Thomson-Houston Company, are at Rugby;

Westinghouse makes his electric machines and gas engines at Manchester; and the American Screw Company have their works at Leeds. All these firms have employed British labour and material for their buildings, and use British labour and material for the goods they manufacture. That is to say, all these firms, when they receive at head-quarters in America orders from foreign countries and British colonies, have to send them to British cities for execution, orders which under normal or free conditions would naturally be executed in America.

There are those who vehemently deny the views here put forward, and who refuse to believe that an excess of imports over exports is a profit to the country that receives the surplus. Mr. Bonar Law, M.P., the Parliamentary Secretary of the Board of Trade, said at a meeting in London on 22nd October, as quoted in the *Times*:—"If this theory were true then the reverse must "also be true. It must be true that if there was any "nation where the exports regularly exceed the imports "that nation must be fast drifting to bankruptcy. (Cheers.) "There was such a nation. The exports of the United "States for the last five years had exceeded their "imports—even after making allowance for freight—to "the extent of more than 100 millions a year. How "were these 100 millions paid for? He knew of no way "in which they could be paid for except by the transfer "of securities or other capital from the countries to which "these imports come to the country from which they were "exported; and it was fair to assume that a large part of "the capital which in that way had been and was being "transferred to the United States was capital which was "formerly owned in the United Kingdom." (Cheers.) "The only other balancing items he knew of were the "freight and insurance, which brought a trifling advantage "to this country."

In short, England, like a spendthrift, was squandering her property, sending her capital to America, and was becoming poorer every year.

Mr. Bonar Law could only arrive at this astounding conclusion by ignoring, on the one hand, the millions of revenue coming in from British investments in America, which have been increasing for many years past, and on which interest has to be paid, and secondly the remittance to England to pay for Eastern produce shipped direct to America from India and China as described on page 31. All these transactions bring profit, and not bankruptcy, to America, and profit to Great Britain too. The fact that balances are seldom settled direct between two countries seems quite unknown to Mr. Bonar Law. Is it to be wondered at that the traders of this country give little credit to the Board of Trade for their services and sagacity when their Parliamentary Secretary enunciates such fallacies.

What Lord Goschen said 40 years ago in his treatise on Foreign Exchange still applies :—"A country which has annually large sums of interest to pay abroad, must import so much less or export so much more. Conversely, a rich country, with an annual income of interest from other nations, is able, as far as this income goes, to pay for an equivalent excess of its imports over the exports. It sets off these receipts against its excessive expenditure. It may look upon them as capital coming in against capital going out. The large sums which England receives every year, in payment of interest from foreign countries, considerably reduce the balance, which, notwithstanding our enormous exportation, is almost always against us. The foreign loans negotiated in England increase her indebtedness at the time when they are contracted, but the annual revenue subsequently derived from them contributes towards its reduction."

In England, the manufacturers who follow Mr. Chamberlain propose, by preference to the Colonies, to divert the natural flow of merchandise in favour of those who will buy the British goods they are personally interested in; the inducement offered being a preferential importation of agricultural produce, by taxing the goods of all other countries. But it is seen, so far as Canada is concerned, that this effect is not attained, and the same causes would hinder the desired result in Victoria and other colonies which impose protective tariffs. The extra cost thus incurred would have to be borne by the British people in general, while the benefits would remain first with the manufacturer interested, and secondly with those in this country who can furnish agricultural produce, and whose prices would be immediately raised when the competitive imports were restricted. This, though it might improve rents, would do so at the expense of the consumer.

Further, whoever has to bear the burden of the import tax—the foreigners or the people of Great Britain—it will obviously be because the wheat comes in. Where, then, will be the benefit to Canada, where an increase in quantity rather than an increase in price is the benefit sought? If, however, foreign wheat is shut out, and Canada supplied the deficiency, the revenue that is to compensate for reduced duties on tea is no longer available.

Although there is a continual growth in the value of British exports, it is deemed insufficient, because the rate of increase does not equal that of Germany and the United States. In regard to Germany, it must be remembered that previous to 1870 she was divided and

restrained by the numerous duchies and kingdoms of which she was composed. Only since 1871 has she been able to take the place to which her resources and genius entitle her. But she has made many mistakes, industrial and economical; she is not in so proud a position as Great Britain, and has more difficult fiscal problems to solve. The United States, on the other hand, owe their prosperity and progress to the fact that they have inherited a vast country, teeming with agricultural and mineral wealth. These resources they are vigorously exploiting; and they can make mistakes almost with impunity.

There is a natural resentment against Germany. An absolutely free entry has been given her to all our ports; our colonies are hers also for all commercial purposes; not only Great Britain, but Calcutta, Capetown, Hong Kong, and Melbourne alike admit her ships, goods, and merchants on an equality with our own. Canada alone has begun to qualify these liberal terms. They still exist elsewhere, and, step by step, as we have given new opportunities and increased our purchases of her goods, Germany has raised her tariffs against us. But if the commerce and prosperity of a country are to be judged as a whole, is not Germany, by selling to us cheaper than she sells at home, living on her own vitals, and working more harm to herself than to us? If German steel-works deliver rails at Milan or Leeds at less than cost price, and at less than she sells them to German railways where there is no sea freight, is she really doing herself any ultimate good? Although individuals here suffer, Great Britain, as a whole, may benefit. But even if we retaliate, and many of the best free-traders are inclined to try, what has that to do with the proposed colonial policy. The two questions should be discussed separately.

There are manufacturers who would say: if an export trade involves such dire consequences, let us confine ourselves to a home trade. Workmen especially, who see only that the goods go from one part of this country to another, are sceptical of the vast share which foreign trade has in their prosperity. The machine-tool makers of Keighley, who send their planing machines or lathes to bridge builders at Derby or Stockton, may think it a home trade, but the tools are really to make bridges for export; the maker in Leeds who sends Bessemer plant and hydraulic machines to Glasgow or Sheffield, must know that they are to be employed mostly on steel for exportation, which can only be paid for by imported goods; his neighbour, the woollen manufacturer, who sends his cloth and ready-made clothing to London, should know, even if his workmen do not understand, that the clothing is for sale in Melbourne, and the cloth in Buenos Aires.

We seem to be in this position or dilemma, that the wealth of the country having, for many years, been growing at a greater rate than the opportunities for its employment at home, investments abroad have been continually increasing in consequence. There is hardly any kind of investment that is not, directly or indirectly, an expenditure on public works—railways, mines, water supply, or tramways, and such outlay takes the form of machinery and plant. Many of such enterprises fail, and the millions so lost are a sad memory for the speculative investors who supplied the funds. But so great is the aggregate of successful enterprises, that the profits coming to this country are far beyond what imports of food and raw material can pay for, in addition to the current payments for our regular exports. In consequence, the imports have to take the form of something that will provide money—manufactured goods.

If the views put forth in these pages are correct, that gold is the mere temporary expression of value, and that debts must ultimately be paid in commodities, then surely the delusion that we should export as much as we receive, and yet prosper, is apparent. To put an extreme case, may it not even be possible that by the mere automatic action of the exchanges, that is by the inexorable rule that merchandise follows the lines of least resistance, exports from this country to India or South America may so make the reservoir of total exports overflow as to be the real cause of German manufactures coming here to restore the balance, and that the harm apparently wrought to those in similar trades here is unavoidable. Probed to the bottom then, the original offender is the capitalist here, who sends his money abroad, instead of keeping it at home. But this island is too small, and trade would languish if he did not do so and if we did not export. So the circle of argument is once more complete, and the dilemma is again presented. This extreme case is purposely put forward to give opportunity for proving its fallacy if it be wrong. So subtle, however, are the ramifications of foreign exchange, so many are the nations that are concerned in the settlement of balances apparently between only two countries, that unless and until the questions of exchange are understood by those whose votes control the destinies of the country, discussions and protestations are alike futile.

The feeble attempt here made to draw attention to this need will have served its purpose if it draws from those better informed a truer exposition of the questions raised, and elicits explanations which may not only clear away delusions on one side or the other, but arrest in time proposed remedies and legislation which may prove disastrous to the country.

The old fallacy that an excess of imports over exports is a disadvantage to any country as making "the balance of trade" against it, may be modified or removed if it be noticed that an excess of exports is only to be seen in poor countries. Great Britain, in 1901, imported merchandise to the value of 522 millions, and exported 347 millions. France, also a rich country, imported more than she exported. The United States, having enormous wealth at home, but with great indebtedness to Europe, exported 295 millions in 1901, while importing only 162 millions, but the excess was in effect the remittance to their partners in Europe of their share of the profits. Russia, which is a poor country, importing only 55 millions, had 73 millions to export to adjust her indebtedness abroad. But occasionally there is the apparent anomaly of a poor country being able to import largely. Thus the Argentine Republic, in the six years ending 1889, imported 138 millions, and exported only 105 millions; but this arose from the very large investments of European capital, mainly on account of loans and public works. If left to her own resources the excess would have been the other way, as is now the case when investments have ceased. In the years 1871-2, after the Franco-German war, there was a similar excessive flow of British capital to Central and South America, with a view—not altogether realised—of obtaining interest or revenue in return. Not only, therefore, is it necessary to regard the trade of many countries in order to arrive at the condition of any one, but the trade of many years must be averaged if any trustworthy result is to be obtained.

Those who are discontented with the balance of trade have constantly before them an awful chimera, an imaginary future when protective tariffs abroad will

have become so universal and prohibitory as to shut British goods out from all foreign markets. Then, it is feared, will come a time when Great Britain will have to pay in gold for all she buys abroad; and, indeed, the continued shipments of bullion from England are looked upon with suspicion. London is the centre of the bullion trade, and much of the gold and silver imported from mining countries has been brought here to be re-exported. But as the amount of gold in this country does not tend to diminish, those who look with anxiety on what they deem an excess of imported merchandise may be reassured. Their gloomy predictions are based on the fallacy that gold and silver are in themselves real wealth, instead of merely being the instruments of expression for property of a reproductive nature. When Spain and Portugal discouraged manufactures and endeavoured to live upon the huge importations of gold and silver from their colonial possessions, their fall had commenced.

The people of this country have so long enjoyed freedom in the daily conduct of their business that they cannot conceive the losses and inconvenience that arise when import taxes prevail. If a tax of £1 be imposed on a certain article, it may be said that whether the tax be judicious or not, at any rate its extent can be measured—it is neither more nor less than £1. But the burden is much greater, for all factors, merchants, and retailers through whose hands the articles pass add their profit to the £1 as well as to the original cost, and such additions bring no corresponding gain to the revenue. Those who are familiar with Custom-houses in foreign countries, and who know the impediments they present, the delay in

clearing goods, the regulations to be followed, the forms to be filled up, and permits to be obtained, dread the institution of them in this country. If once tariffs are established, they are likely to extend in order to adjust supposed inequalities, and it becomes a battle between wealthy interests and the mass of the people, who do not understand and cannot combine to resist. Facilities are given for fraud which handicap the honest merchant, and the small trader cannot compete equally with the capitalist in paying customs dues in advance. When once tariffs are established, it is beyond the wit of man to make the burdens and benefits apply equally, and the country is oppressed by agitation of each trade to arrange taxation to their own advantage. No minister of state, and no departmental officials, however able and honest, can settle these questions equitably.

It is urged by some: let us at any rate give a fair trial to Mr. Chamberlain's proposals; if they are wrong, the present system can be restored. When once industries are established or extended under protective tariffs, it is difficult to upset them without loss; and meanwhile, the commerce of the country suffers from artificial restrictions.

The Free trade at present enjoyed is part of the general political freedom of the country, which makes us the envy of other nations.

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